



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Procedural Review

Sentinel Elementary School District No. 71

As of December 8, 2005



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@azauditor.gov

Amanda Winn
Sara Thomas
Mitchell McCroskey

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 31, 2006

Governing Board
Sentinel Elementary School District No. 71
HC-1, Box 57
Dateland, AZ 85333

Members of the Board:

We performed a procedural review of the internal controls of Sentinel Elementary School District No. 71 as of December 8, 2005. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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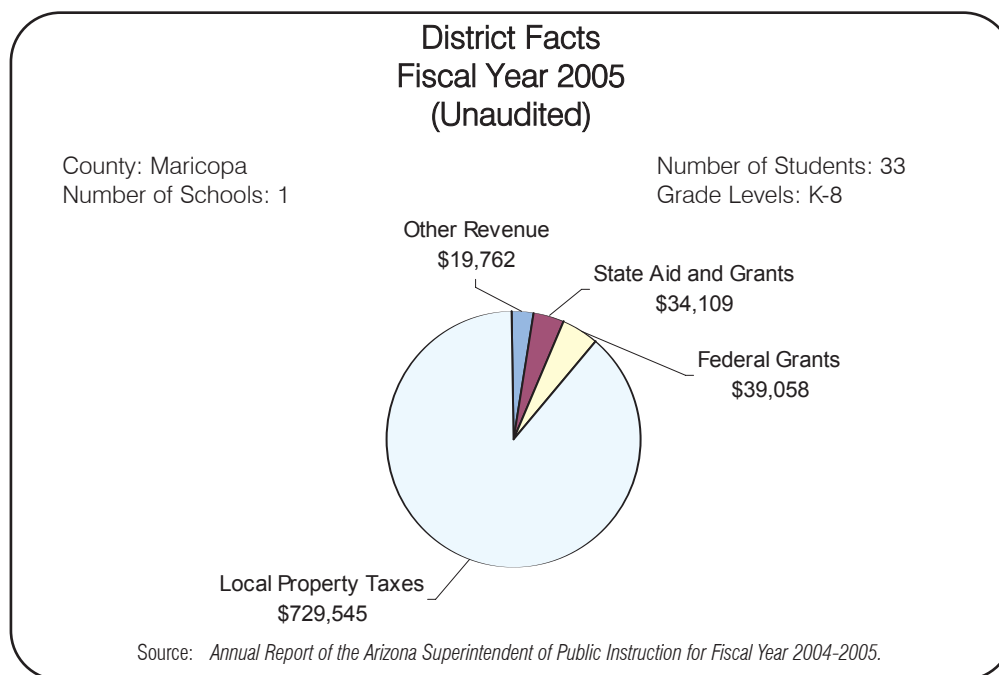
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INTRODUCTION

Sentinel Elementary School District No. 71 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$800,000 it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District had not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District's controls over purchasing and expenditures should be improved

The District may not have received the best possible value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow USFR guidelines, as it did not obtain written or oral price quotations for purchases that required them.

The District had ineffective expenditure processing procedures.

Additionally, it is essential that the District follows proper expenditure processing procedures. However, the District did not follow such procedures since it did not always prepare or approve purchase requisitions and purchase orders, prepare receiving reports, perform clerical accuracy checks on vendor invoices, or cancel supporting documentation. Also, the District did not ensure that blanket purchase orders covered a specific time period and that purchases were reviewed to ensure compliance with the District's conflict of interest policy.

In addition, the District did not always approve travel claim forms or ensure travel lodging expenditures were within the Arizona Department of Administration's (ADOA) prescribed limits. Also, the District did not have policies in place to monitor the issuance of district fuel cards to employees or the use of Sam's Club membership cards. Finally, expenditures reported in the District's annual financial report (AFR) did not always agree with the District's accounting records, and the Classroom Site Fund budget balances were not carried forward to the current year.

Recommendations

To strengthen controls over purchasing and expenditures, the District should establish and follow the policies and procedures listed below:

Purchasing

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost at least \$5,000 but less than \$15,000.
- Obtain written price quotations from three or more vendors for purchases estimated to cost at least \$15,000 but less than \$33,689 (current threshold).
- If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

Expenditures

- Prepare purchase requisitions and purchase orders that are approved by an authorized employee prior to ordering goods and services for all purchases requiring them.
- Prepare receiving reports for all goods and services received, except exempted items. The date of receipt, quantity received, and signature of the recipient should be noted on the receiving report. When packing slips are used as receiving reports, the date of receipt and signature of the recipient should be noted to indicate review of the shipment.
- Check vendor invoices for mathematical accuracy to ensure accurate payments, and document that the check was performed.
- Cancel invoices and other supporting documentation by stamping them paid to prevent duplicate payment.
- Prepare blanket purchase orders that include a specific time period that the purchase order is in effect and a specific dollar limit. Deduct invoice amounts authorized by a blanket purchase order from the limit to determine the unexpended balance remaining.
- Review purchases for conflicts of interest before ordering goods and services.
- Ensure that payments for travel lodging costs do not exceed the maximum reimbursement amounts established by ADOA and that all travel claims are approved by employees' supervisors.
- Develop written policies and procedures for the issuance and usage of district fuel cards and Sam's Club membership cards.
- Update its accounting records for all revenues, expenditures, and necessary adjustments before preparing the AFR. Assign a second employee to verify that the amounts reported in the AFR agree with the District's accounting records before it is submitted to the County School Superintendent and ADE.
- Carry forward the unexpended budget balances in the Classroom Site Funds to the appropriate funds in the following year's budget in accordance with Arizona Revised Statutes §15-978.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.

USFR Memorandum No. 210 includes information on the maximum travel reimbursement rates established by the Arizona Department of Administration.

The District should strengthen controls over cash receipts and bank accounts

Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that cash receipts are promptly and accurately recorded and deposited into the District's bank accounts. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not adequately

Poor cash controls left district monies susceptible to loss, theft, or misuse.

separate cash-handling and recordkeeping responsibilities for its Maintenance and Operation (M&O) Fund revolving bank account or for miscellaneous cash receipts. Additionally, the District did not prepare cash receipt forms promptly for miscellaneous cash receipts and did not endorse checks immediately upon receipt. Also, the District did not ensure that cash was physically safeguarded and did not deposit monies daily, when significant, or at least weekly.

Further, the District did not prepare monthly bank reconciliations for the M&O revolving, student activities, and food service clearing bank accounts, and did not prepare check requests for M&O Fund revolving bank account disbursements. Finally, the District did not obtain Governing Board approval for its bank accounts and check signers and did not operate the M&O Fund revolving bank account on an imprest basis.

Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Separate responsibilities of receiving, depositing, and recording cash receipts; preparing checks; and reconciling bank accounts. If one employee is responsible for multiple functions, a district manager or supervisor should review and approve summary reports and reconciliations.
- Prepare cash receipt forms for monies received and restrictively endorse checks and warrants promptly upon receipt.
- Safeguard cash by limiting access to the lock box.
- Deposit cash receipts intact daily when significant, or at least weekly. The District should deposit extracurricular activities fees tax credit monies directly with the County Treasurer or into an Auxiliary Operations Fund bank account.
- Obtain Governing Board approval of all bank accounts and designate check signers. Retain documentation of this approval.

- Assign an employee not responsible for handling cash or issuing checks to prepare written bank reconciliations monthly for all bank accounts. All reconciling items should be investigated and any necessary corrections made. If the same employee must perform multiple functions, a district manager or supervisor should review and approve the bank reconciliations.
- Prepare and retain documentation to support disbursements from the M&O Fund revolving bank account, such as check requests and vendor invoices.
- Operate the M&O Fund revolving bank account on an imprest basis; the check register balance plus paid invoices should equal the amount authorized for the account.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

USFR pages VI-C-3 and 4 describe M&O Fund revolving bank account procedures.

The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not separate the responsibilities of cash-handling and recordkeeping. Additionally, the Governing Board did not appoint a student activities treasurer or approve student fund-raising activities. Also, the District's procedures for cash disbursements were not adequate, and the District did not prepare and retain supporting documentation for cash receipts and disbursements. Further, information recorded in the student activities checkbook register was not always complete or accurate. Finally, a check was made payable to cash, checks were not always signed by two authorized persons, and the supply of unused checks was not adequately safeguarded.

The District did not effectively carry out its fiduciary responsibility over student activities cash receipts and disbursements.

Recommendations

To strengthen controls over student activities monies, the District should establish and follow the policies and procedures listed below:

- Separate cash-handling and recordkeeping responsibilities among employees. If one employee is responsible for multiple functions, a district manager or supervisor should review and approve summary reports and reconciliations.

USFR §X-H provides general policies and procedures for student activities.

- Have the Governing Board appoint an employee as a student activities treasurer to provide oversight, maintain club records, and sign student activities checks. Also, student activities checks should be signed by two persons, including the student activities treasurer and another person authorized to sign by the Governing Board.
- Obtain the Governing Board's approval for all student activities fund-raising activities.
- Prepare and retain documentation to support student activities cash receipts such as activity or cash collection reports and daily cash collection summaries.
- Make disbursements from the student activities account only after approval by the student club. The club should document the approval in their meeting minutes.
- Prepare and retain documentation such as check requests or purchase requisitions, purchase orders, receiving reports, and vendor invoices to support student activities disbursements.
- Ensure that the checkbook register is complete and accurate and that checks are not made payable to cash or bearer.
- Physically safeguard unused checks in a safe or locked cabinet and limit access only to authorized persons.

The District should improve its controls over food service cash receipts

The District collects significant amounts of cash through its food service operations, and because cash is more susceptible to misappropriation than any other asset, it is essential that districts establish policies and procedures so that cash receipts are efficiently safeguarded and accurately reported. However, the District did not have adequate internal controls in place to help ensure that food service cash receipts were safeguarded and accurately reported. Specifically, the District did not adequately separate the responsibilities of cash-handling and recordkeeping for the food service clearing bank account. In addition, the District did not prepare cash receipt forms promptly upon receipt of monies and prepared some receipts after the monies had been deposited. Also, the District's cash receipt forms did not always include a time period for meal prepayments or the number of meals sold, and a daily reconciliation of food service sales to cash collected was not prepared. Additionally, the District did not have procedures in place to ensure that receivables for charge sales were

The District did not effectively safeguard or account for cash received from school lunch sales.

collected in a timely manner. Further, the District did not always deposit food service cash receipts in a timely manner in the food service clearing bank account, and the monies deposited in that bank account were not remitted to the County Treasurer at least monthly.

Recommendations

To help strengthen internal controls over food service cash receipts, the District should:

- Separate cash-handling and recordkeeping responsibilities among employees. If one employee must perform multiple functions, district management should implement additional supervisory review at appropriate points in the process.
- Issue prenumbered and numerically controlled cash receipt forms promptly when monies are received, including the purchaser's name, meal type, time period of meal prepayment or number of meals sold, and amount paid.
- Prepare a daily reconciliation of food service sales to cash collections and investigate and resolve any differences.
- Prepare written policies and procedures to ensure that receivables for charge sales are collected in a timely manner. Students should be billed at least every 2 weeks for outstanding balances.
- Deposit monies intact daily, if significant, or at least weekly in the food service clearing bank account. Also, monies in the food service clearing bank account should be remitted to the County Treasurer weekly, when significant, or at least monthly.

A sample Daily Cash Reconciliation Report is shown on USFR page X-F-19.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets and to ensure they are properly accounted for. However, the District's capital assets list did not include all assets, and a stewardship list was not maintained. In addition, the capital assets list did not include all required information, and supporting documentation was not retained for all assets recorded on the list. Also,

The District's capital assets list was incomplete, and a stewardship list to account for items costing between \$1,000 and \$5,000 was not prepared.

the District did not reconcile capital asset additions to capitalized expenditures or the current year's capital assets list to the previous year's list. Finally, the District did not have written procedures for safeguarding its equipment.

Recommendations

The following procedures can help the District strengthen controls over its capital assets and ensure that the capital assets and stewardship lists are accurate and complete:

- Maintain a current and complete capital assets list of items costing \$5,000 or more and with useful lives of 1 year or more, and ensure the list includes all land, buildings, and related improvements. Include all required information for each item on the list.
- Prepare and maintain a current and complete stewardship list of all equipment items costing between \$1,000 and \$5,000 that includes the item's description, identification number (tag or serial number), location, and the month and year of acquisition.
- Retain cost documentation such as purchase orders, receiving reports, and vendor invoices to support information recorded on the capital assets list.
- Reconcile capital asset additions to capitalized expenditures and the current year's capital assets list to the previous year's list, and make all necessary corrections.
- Establish a policy that addresses the safeguarding of equipment against improper or unauthorized use and from theft or misplacement.

The District should improve its controls over payroll processing

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to

ensure that employees are paid accurately and to maintain current personnel records to support payroll expenditures. However, the District did

not have adequate controls over payroll processing. Specifically, employee time sheets and attendance records were not always properly completed and were not approved by the employees' supervisors. Also, employees' leave requests were not

Supervisors did not approve employee time sheets and attendance records.

signed and dated to indicate approval, and the District did not maintain written authorizations for names added to or deleted from the payroll or for individual salary or wage changes. Further, the District did not ensure that employees' personnel files included all required information and that the District's employee termination procedures required the preparation of a clearance form.

Recommendations

To help strengthen controls over payroll processing, the District should ensure that employee time sheets and attendance records are completed, and include hourly employees' regular and overtime hours worked each day and leave hours taken. Also, time sheets and attendance records should be reviewed and approved by the employee's supervisor. Additionally, leave requests, payroll changes, and individual salary or wage changes should be approved, and documentation of such approvals should be retained. Finally, the District should include all required information in the employees' personnel files and develop employee termination procedures that require the separating employee to prepare a clearance form indicating the return of keys, equipment, and credit cards.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not retain documentation to calculate and report partial-day attendance, and membership and absence days reported on the District's attendance records did not always agree with ADE's reports. In addition, the District did not document the date that student entries and withdrawals were entered into the District's computerized attendance system.

The District did not calculate and report partial-day attendance.

Recommendations

The following procedures can help ensure that the District receives the correct amount of state and local funding:

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
 - Attendance of at least $\frac{3}{4}$ of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least $\frac{1}{2}$, but less than $\frac{3}{4}$, of the instructional time scheduled for the day should be counted as a $\frac{1}{2}$ day of attendance.
- Require a second employee to verify that membership and absences reported to ADE agree with the District's attendance records, including teachers' attendance registers.
- Document the date that entries and withdrawals are entered into the District's computerized attendance system. Entries and withdrawals should be entered within 5 days to ensure that the student's enrollment status is accurately reflected in ADE's Student Accountability Information System.